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S&P 'Re-Benchmarks' Muni Credits, Stressing Management, Flexibility

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Standard & Poor's late Monday said it is conducting a more detailed review of public finance credits, including an adjustment to government credits that will place a greater emphasis on management.

The report said many governments with typical credit factors have an increased ability to adjust their response to economic downturns, a relatively recent development that has led the rating agency to "re-benchmark" government ratios with a greater eye to the management of the issuer. Standard & Poor's is also reviewing its ratings for water and sewer issues, elementary and secondary school districts, and other special districts.

In the last few months, the agency has made many changes to the ratings of municipal issuers. It said these reflect its view of the greater fiscal flexibility now enjoyed by governmental issuers in the U.S., but that ratings may be more volatile in the near future.

"The current and expected near-term impact of these combined changes is that some general obligation ratings will likely move upward," Standard & Poor's said in the report. "There is a distinct possibility that as ratings improve overall, ratings volatility may also increase and potential changes may be greater than in the past."

So far this year through May 1, the agency has made 469 rating changes, according to analysis by The Bond Buyer of information obtained through Standard & Poor's Ratings Direct. Of those, 416 were upgrades compared to 53 downgrades, a ratio of 7.9 to 1. It compares to an upgradeto-downgrade ratio of 3 to 1 in the period since 2001, the rating agency said.

The report appears to address some market skepticism about Standard & Poor's upgrade activity, especially in light of softening economic conditions. Parts of the report also defended the agency's universal rating scale, and the upgrade trend exhibited by the agency since the completion of its first default study in 2001.

Standard & Poor's said any ratings changes made under the review will be "cautious and prudent."

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